



July 14, 2004

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**BOB ALDRICH**  
Acting Executive Officer

**TO:** Local Agency Formation Commission

**FROM:** Acting Executive Officer

**SUBJECT:** Amended Contract for County Services and Lease for  
LAFCO Office Facilities

## Introduction

Attached for your review and consideration is a draft amended County/LAFCO services agreement (please see Exhibit A). The amended agreement fully separates LAFCO from the County's general accounting program and allows for an independent accounting system for all LAFCO operations. Additional changes incorporated into the amended agreement eliminate other County services that are no longer needed by LAFCO or which can be absorbed by existing LAFCO personnel. The agreement also includes a new lease for LAFCO's office facilities. The County now requires a standard lease for all tenants, such as LAFCO, which rent office space within a County facility.

## Background

Since July 1, 2001, when State law required that LAFCOs throughout California become independent public agencies, Orange County LAFCO has chosen to contract directly with the County for facilities and specific services. This decision was made largely based on cost, since it was and is more cost effective to contract with the County for certain services than using independent vendors.

In April 2001, the County and LAFCO entered into our existing services agreement. The agreement allows LAFCO to independently contract with the County and its departments for facilities and services, including accounting and investments, insurance coverage, purchasing, employee benefits administration, payroll, petty cash, check writing and general accounting.

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### Recommendation for Independent Accounting System

In February 2003, LAFCO's first independent audit was completed by the certified public accounting firm of Moreland & Associates, Inc. Included in the audit's findings was a recommendation that LAFCO consider transitioning to an independent accounting system. This recommendation was based primarily on the small size of LAFCO's staff and budget. Given LAFCO's size (seven full time employees) in comparison to the County's approximately 18,000 employees, the auditors concluded that the County's budget reports were unable to provide the detailed information and customized cost tracking data that would be possible for LAFCO through a separate accounting system.

In August 2003, staff met with the LAFCO Executive Committee to discuss the possibility of transitioning to an independent accounting system as well as other potential changes to LAFCO's existing County services contract. The Executive Committee provided direction to staff to pursue the suggested contract revisions. An initial draft of the revised agreement was presented to your Commission in January 2004 for review and comment. No Commission comments were received by staff at that time. Over the past six months, staff has worked closely with LAFCO legal counsel and affected County departments and agencies in finalizing the draft agreement.

### **Summary of Contract Changes**

Exhibit B to this staff report provides your Commission with an "underline/strikeout" version of the existing LAFCO/County services agreement. The "underlines" and "strikeouts" indicate the changes that are being proposed in the revised contract. A "clean" version of the proposed revised contract is included as Attachment A to this report.

### Proposed LAFCO/County Contract Revisions - Summary

Key revisions to the LAFCO/County services agreement include the following components:

- *Redefines the service relationship between LAFCO and the County*
  - Terminates banking and accounting services with the County's Treasurer-Tax Collector. Due to the small size of LAFCO's staff and budget, these services can be better handled "in-house", allowing for increased budgetary and project tracking capabilities

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and a streamlined billing procedure for vendors and office supplies.

- Terminates purchasing and real estate services with the County CEO/Purchasing & Real Estate Division. Currently, LAFCO already purchases most of its own supplies directly with vendors. LAFCO has no ongoing need for real estate services.
  - Incorporates revised services agreement with the CEO/Office of Information and Technology to provide LAFCO with technical network and desktop support for office computer systems.
- *Clarifies the process for LAFCO compensation of County services*
- Requires County to submit bills directly to LAFCO for payment of services. Currently, some County service costs are paid through a direct transfer from LAFCO's operating budget by the County, making it difficult for LAFCO to track invoices and journal vouchers.
- *Incorporates a lease for LAFCO's use of County office facilities*
- Currently, LAFCO pays the County for office space based on a "building depreciation" formula; costs for janitorial service and utilities are separately billed to LAFCO. The County now requires a lease for all non-County tenants using its office facilities. The proposed lease includes rent, janitorial service and all utility expenses in a single cost.

## Next Steps

If the Commission approves the amended services agreement as proposed, the agreement will be considered by the Board of Supervisors in August 2004. The agreement will become effective upon approval by both parties.

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## **Conclusion and Recommendation**

Over the last year, staff has worked extensively with LAFCO counsel, the affected County departments, and the LAFCO Executive Committee to revise our existing County services agreement to better meet the needs and responsibilities of LAFCO. The proposed agreement eliminates services that are unnecessary for LAFCO operations and revises other services to strengthen the agency's budgetary, accounting and project tracking capabilities. The revised agreement also incorporates the County's requirement for a lease for LAFCO's use of County office space.

It is recommended that the Commission:

1. Approve the Amended Agreement for the Provision of and Compensation for Facilities (Exhibit A).
2. Approve the Office Lease and authorize the Acting Executive Officer to execute the lease on behalf of LAFCO.

Respectfully submitted,

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BOB ALDRICH

*Attachments:*

*Exhibit A - Proposed LAFCO/County Services Agreement and office space lease*

*Exhibit B - "Underline/strikeout" version of amended LAFCO/County Services Agreement*